

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0391-03  
Bill No.: SB 500  
Subject: Taxation and Revenue- General; Children and Minors.  
Type: Original  
Date: March 14, 2003

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
General Revenue	(\$810,000 to Unknown)	(Unknown - Greater than \$100,000)	(Unknown - Greater than \$100,000)
<b>Total Estimated Net Effect on General Revenue Fund *</b>	<b>(\$810,000 to Unknown)</b>	<b>(Unknown - Greater than \$100,000)</b>	<b>(Unknown - Greater than \$100,000)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>FY 2006</b>
None			
<b>Total Estimated Net Effect on Other State Funds *</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\* The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
<b>Local Government *</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\* The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Department of Revenue (DOR)** state the following regarding the bill;

Administrative Impact: Although the number of adoption tax credits will increase, DOR is currently using resources to deny the credits. These resources will be applied to any costs related to the additional credits filed due to this legislation. Therefore, there is no additional administrative impact to DOR.

Revenue Impact: DOR estimates it will deny at least 300 adoption tax credit claims due to the cap by April 15th. The average credit this year is \$2,700. Therefore DOR estimates the minimum impact to the general revenue fund (GR) is \$810,000. However, DOR has made a point to notify taxpayers that the cap has been met and any claim would be denied this fiscal year. Therefore, DOR assumes that there are an unknown amount of additional credits that could be claimed if this legislation is passed. Therefore, DOR assumes the revenue impact of the proposal to GR is a loss of \$810,000 to an unknown amount each year.

ASSUMPTION (continued)

Officials from the **Department of Social Services (DOS)** state there will be no direct fiscal impact on their agency. DOS assumes that removing the cap may result in a loss of revenue to the state as a whole, depending on whether the amount of credits being requested exceeds the current cap.

DOS states that their county offices sign-off on paperwork submitted by the taxpayer stating that DOS did not reimburse the taxpayer for certain nonrecurring expenses, which allows the taxpayer to attempt to obtain a tax credit through DOR. DOS states that they do not track these submissions or track the amount of expenses on them, therefore, could not determine the amount of expenses that would qualify under the tax credit program. DOS also states that not all of the special needs children adopted in Missouri go through their office, but may instead go through an adoption agency or through the court system.

Officials from the **Office of Administration - Budget and Planning (BAP)** assume they have no empirical basis for estimating the increased cost of this tax credit if the cap was removed. The removal of the cap could negatively impact general revenue. BAP defers to the Department of Social Services and the Department of Revenue for information related to potential cost of this proposal.

**Oversight** assumes the anticipated amount of credits to be submitted over the annual cap this year could be a result of the previous years' buildup of denied claims plus additional claims from this year. Therefore, if the cap on the tax credits was taken out of statutes, the first fiscal year (FY 2004) could have a large impact of previous year' denied credits being allowed, and then future years not so large. Therefore, with this possibility and with the lack of information available regarding the number of special needs adoptions in the state and the non-recurring expenses related to them, Oversight will utilize DOR's estimate of (\$810,000 to Unknown) for FY 2004, but for future years, assume (Unknown - greater than \$100,000) in losses to GR.

These tax credits can be sold to and utilized by insurance companies against their premium tax liability. Premium tax revenue is split evenly between General Revenue and the County Foreign Insurance fund which is later distributed to school districts. Therefore, Oversight has footnoted the possibility that some of the additional tax credits resulting from this proposal could be utilized by insurance companies and therefore, reduce revenue to the local school districts.

**This proposal would reduce Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
<b>GENERAL REVENUE</b>			
<u>Loss</u> - increase in adoption tax credits	(\$810,000 to <u>Unknown</u> )	(Unknown - Greater than <u>\$100,000</u> )	(Unknown - Greater than <u>\$100,000</u> )
<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND *</b>	<b>(\$810,000 to <u>Unknown</u>)</b>	<b>(Unknown - Greater than <u>\$100,000</u>)</b>	<b>(Unknown - Greater than <u>\$100,000</u>)</b>

\* The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

#### FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

#### DESCRIPTION

This proposal modifies the adoption tax credit by eliminating the aggregate cap on the credit.

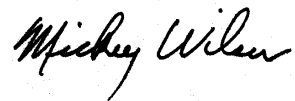
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

#### SOURCES OF INFORMATION

RAS:LR:OD (12/02)

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Department of Social Services  
Department of Revenue  
Office of Administration - Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

MICKEY WILSON, CPA  
DIRECTOR  
MARCH 14, 2003